

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-01
PRS-01 PA-01 /086 W
-----022033 117099 /46

R 021829Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1168
TREASURY DEPT WASHDC

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DEPARTMENT PLEASE PASS TO FRB

E.O. 11652: N/A
TAGS: PGOV, PINT, EFIN, UK
SUBJECT: CONTINUED DISCUSSION OF DIVIDING TREASURY
FUNCTIONS

REF: LONDON 1129

SUMMARY. THE SUGGESTION THAT THE PUBLIC EXPENDITURE
SECTION OF HM TREASURY BE REMOVED TO ESTABLISH
SEPARATE FINANCE AND BUDGET MINISTRIES HAS GAINED
SUPPORT IN RECENT WEEKS. THE HEARINGS OF THE HOUSE OF
COMMONS SELECT COMMITTEE ON EXPENDITURES HAVE REVEALED
SUPPORT AMONG POLITICAL HEAVYWEIGHTS, INCLUDING FORMER
PRIME MINISTERS WILSON AND HEATH AND CABINET SECRETARY
SIR JOHN HUNT. THE RECENT ELEVATION OF TREASURY
CHIEF SECRETARY JOEL BARNETT (WHO OVERSEES THE PUBLIC
EXPENDITURE FUNCTIONS) TO CABINET RANK MAY HAVE BEEN.
INTER ALIA. A PRELIMINARY MOVE IN THIS DIRECTION.
END SUMMARY.

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1. AN EARLIER TIMES REPORT. FROM A SEEMINGLY WELL-
PLACED SOURCE (REFTE/), THAT PRIME MINISTER CALLAGHAN
WAS AT LEAST CONSIDERING THE REORGANIZATION OF HM
TREASURY BY REMOVING ITS BUDGET FUNCTIONS AND COMBINING
THEM WITH THE CIVIL SERVICE DEPARTMENT TO FORM A NEW
CENTRAL BUDGET AND MANAGEMENT OFFICE APPEARS TO BE BEING
BORNE OUT BY DEVELOPMENTS. THE HOUSE OF COMMONS SELECT COMMITTEE ON

EXPENDITURES. WHICH MOST OBSERVERS REGARD AS THE STRONGEST AND MOST EFFECTIVE PARLIAMENTARY COMMITTEE. IS CURRENTLY HOLDING PUBLIC HEARINGS ON THE FORMULATION OF PUBLIC EXPENDITURE POLICY. THE SUGGESTION TO CONSIDER A SEPARATE, OMB-TYPE INSTITUTION HAS FOUND CONSIDERABLE SUPPORT AMONG THE POLITICAL HEAVYWEIGHTS WHO HAVE TESTIFIED BEFORE IT.

2. THE FIRST BIG GUN TO RAISE THE POSSIBILITY OF SUCH A REORGANIZATION PUBLICLY WAS SIR JOHN HUNT, SECRETARY OF THE CABINET. GENERALLY CONSIDERED TO BE THE MOST INFLUENTIAL (AND DISCREET) CAREER CIVIL SERVANT, HUNT ON FEBRUARY 14 DESCRIBED ALTERNATIVE APPROACHES TO THE REORGANIZATION OF THE PUBLIC EXPENDITURE FORMULATION AND POLICY DECISIONS. ONE OPTION RAISED, AND THE ONE WHICH HUNT SAID HE PREFERRED, WOULD YIELD TWO NEW MINISTRIES, THE FIRST FORMED FROM THE MERGER OF THE CIVIL SERVICE DEPARTMENT WITH THE TREASURY'S PUBLIC EXPENDITURE DIVISIONS, AND THE SECOND CREATED FROM THE REMAINING SECTIONS OF TREASURY. THE FIRST, HE INDICATED, WOULD BE MODELED ON THE AMERICAN OMB, WHILE THE SECOND WOULD BE FUNCTIONALLY SIMILAR TO EUROPEAN FINANCE MINISTRIES. LAST WEEK FORMER CONSERVATIVE PRIME MINISTER EDWARD HEATH APPEARED BEFORE THE COMMITTEE AND MADE MUCH THE SAME PITCH (HEATH HAS LONG BEEN ON RECORD AS FAVORING SUCH A REORGANIZATION).

3. A THIRD INFLUENTIAL VOICE WAS ADDED FEBRUARY 28 WHEN FORMER LABOR PM SIR HAROLD WILSON TOLD THE COMMITTEE LIMITED OFFICIAL USE

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THAT HE HAD BECOME A RECENT CONVERT TO THE BUDGET OFFICE /FINANCE MINISTRY REFORM PROPOSAL. WILSON SAID A STRONG CASE EXISTED FOR AT LEAST EXAMINING THE POSSIBILITY. IF IT WERE SUCCESSFUL, A FIRM PROVISIO SHOULD BE MADE THAT THE CABINET SHOULD DECIDE ON THE SIZE OF TOTAL EXPENDITURE AT THE OUTSET OF THE EXERCISE. IF NO CHANGE WERE MADE IN TREASURY STRUCTURE (I.E. PUBLIC EXPENDITURE FUNCTIONS NOT SHIFTED TO THE CIVIL SERVICE DEPARTMENT), A NEUTRAL TRIBUNAL COMPOSED OF SENIOR NON-SPENDING CABINET MINISTERS SHOULD RULE, FOR EXAMPLE, ON HOW PUBLIC EXPENDITURE CUTS SHOULD BE ALLOCATED WHEN THESE WERE NECESSARY.

4. COMMENT: IN THE REFTTEL THE EMBASSY RAISED THE POSSIBILITY THAT THE FUTURE TREND MIGHT BE GREATER CABINET INVOLVEMENT IN THE BUDGETARY DECISION-MAKING PROCESS, AS WAS THE CASE IN THE EXPENDITURE-CUTTING PROCESS LAST NOVEMBER/DECEMBER. WE DO NOT BELIEVE SIR JOHN HUNT WOULD HAVE ADVOCATED THE OPTION OF A REORGANIZATION OF

HM TREASURY OR EXPRESSED A PREFERENCE FOR A PARTICULAR
ALTERNATIVE, WITHOUT CALLAGHAN'S EXPLICIT KNOWLEDGE

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AND APPROVAL. INDEED, IT SEEMS PROBABLE THAT HUNT WAS
CHARGED WITH ENLARGING THE TRIAL BALLOON THAT WAS
LAUNCHED BY THE JANUARY TIMES ARTICLE. NEITHER HEATH
NOR WILSON IS TO ANY EXTENT BEHOLDEN TO CALLAGHAN, AND
THEIR TESTIMONY BEFORE THE COMMITTEE MAY WELL HAVE AN
IMPACT ON THE OUTCOME.

5. IT MIGHT ALSO BE INFERRED THAT THE RECENT ELEVATION
OF TREASURY CHIEF SECRETARY JOEL BARNETT TO THE
CABINET WAS A FURTHER MOVE TOWARD REORGANIZATION. THIS
INFERENCE, HOWEVER, IS CONJECTURAL. CHANCELLOR HEALEY,
WHO OPPOSES REORGANIZATION OF TREASURY ALONG THE PRO-
POSED LINES, RECENTLY TOLD EMBOFFS THAT HE HAD LOBBIED
FOR TWO YEARS TO HAVE BARNETT BROUGHT INTO THE CABINET
AND THAT HIS ENTRY HAD STRENGTHENED THE TREASURY'S
POSITION IN THAT BODY. NEVERTHELESS, HEALEY'S PERCEP-
TIONS OF THE CIRCUMSTANCES DO NOT PRECLUDE THE POS-
SIBILITY THAT CALLAGHAN, IN THE BACK OF HIS MIND, ALSO
SEES BARNETT'S PROMOTION AS A STEP TOWARD REORGANIZA-
TION. ON BALANCE, WE BELIEVE CALLAGHAN, AT THE VERY
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LEAST, WANTS TO CONTINUE GREATER CABINET INVOLVEMENT
IN PUBLIC EXPENDITURE AND FISCAL DECISIONS AND MAY
WELL BE SERIOUS ABOUT WANTING TO RESTRUCTURE TREASURY.
CHARACTERISTICALLY, HE IS PURSUING HIS GOALS IN A
CAREFUL AND POLITICALLY ADROIT FASHION. THE NEXT IN-
DICATION OF HIS VIEWS WILL BE IN THE HANDLING OF THE
RUN-UP TO THE MARCH 29 BUDGET.

ARMSTRONG

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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
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